

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 IO-13 PM-05 SP-02 SS-15 L-03
CIAE-00 INR-10 NSAE-00 DODE-00 SSO-00 INRE-00
NSCE-00 EB-08 OMB-01 TRSE-00 DOE-15 SOE-02 AID-05
/094 W

-----046321 090025Z /64

O R 082300Z MAY 78
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INFO AMEMBASSY LA PAZ
AMEMBASSY SANTIAGO
AMCONSUL GUAYAQUIL
USCINCSO QUARRY HTS CZ

C O N F I D E N T I U L SECTION 1 OF 2 QUITO 3086

LIMA FOR DEPUTY ASSISTANT SECRETARY MCNEIL

E.O. 11652: GDS
TAGS: PBOR, EC, PE
SUBJECT: PRESIDENT POVEDA, FONMIN AYALA DISCUSS PERU WITH
DEPUTY ASSISTANT SECRETARY MCNEIL

1. BEGIN SUMMARY: ECUADOR-PERU RELATIONS WERE DISCUSSED AT LENGTH IN CONVERSATIONS BETWEEN VISITING DEPUTY ASSISTANT SECRETARY MCNEIL AND PRESIDENT POVEDA AND FONMIN AYALA ON MAY 6. ECUADOREANS CLAIMED THAT PERU HAD ORDERED BOMBING OF ECUADOREAN VILLAGE DURING JANUARY BORDER INCIDENT, WHICH WAS STYMIED BY BAD WEATHER AND LAST-MINUTE SUMMIT COMMUNICATIONS. BOTH PERCEIVED THAT CIVILIAN GOVERNMENTS WOULD HELP TO REDUCE TENSIONS, AND BOTH STRONGLY BACKED FINANCIAL ASSISTANCE TO PERU. END SUMMARY.

2. IN TWO SEPARATE CONVERSATIONS ON MAY 6, PRESIDENT ALFREDO POVEDA BURBANO AND FOREIGN MINISTER JOSE AYALA LASSO DISCUSSED
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THE ECUADOR-PERU PROBLEM WITH VISITING ARA DEPUTY
ASSISTANT SECRETARY FRANCIS MCNEIL.

3. MR MCNEIL OBSERVED THAT THERE HAD BEEN MUCH CONCERN VOICED ABOUT THE POSSIBILITY OF INCREASED TENSIONS IN 1979 BECAUSE OF THE CENTENNIAL OF THE WAR ON THE PACIFIC, AND HE ASKED PRESIDENT POVEDA HIS VIEWS. POVEDA REPLIED

THAT HE DID NOT BELIEVE PERU WAS PLANNING TO FIGHT A TWO-FRONT WAR, AND THAT THIS PROBABLY DIMINISHED THE POSSIBILITIES OF AN OUTBREAK OF HOSTILITIES. HOWEVER, AS LONG AS TERRITORIAL PROBLEMS REMAINED UNRESOLVED AND TROOPS CONFRONTED EACH OTHER ACROSS VAGUE BORDERS, ANY INCIDENT COULD PROVE TO BE THE SPARK THAT LED TO ESCALATED MILITARY ACTION. POVEDA PERCEIVED A REAL DANGER SHOULD ARGENTINA-CHILE RELATIONS WORSEN, TEMPTING PERU TO JUMP ON THE BACK OF A WEAKENED CHILE.

4. POVEDA REFERRED TO THE EXISTENCE OF A HARD-LINE GROUP IN THE PERU MILITARY WHICH WAS PLACING TREMENDOUS PRESSURES ON MORALES BERMUDEZ. MORALES BERMUDEZ, HE SAID, HAD COMPLETELY CHANGED HIS ATTITUDE TOWARD THE RESOLUTION OF THE ECUADOR BORDER PROBLEM. ALTHOUGH CONCILATORY LAST YEAR, MORALES APPARENTLY COULD NOT SAY THE SAME THINGS TO HIS MILITARY ABOUT THE BORDER THAT HE HAD SAID TO POVEDA. BECAUSE OF THIS ALROBLEM, PERUVIAN FONMIN JOSE DE LA PUENTE WAS NOW LYING ABOUT PREVIOUS ECUADOR-PERU CONVERSATIONS ON THE SUBJECT.

5. MCNEIL NOTED THAT THERE WERE OTHER CONSTRAINTS ON PERU. FIRST, HE SAID WAS PERU'S PLEDGE TO FOREGO FURTHER ARMS ACQUISITIONS, WHICH HE CONCEDED WAS CLOSING THE BARN DOOR SOMEWHAT TARDILY BUT SERVED TO REDUCE TENSIONS NONETHELESS. SECOND, WAS THE PRESSURE OF THE RIO TREATY

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WHICH THE US SUPPORTED WHOLE-HEARTEDLY. AND THIRD, WAS PERU'S FINANCIAL PROBLEMS WHICH WOULD MAKE IT DIFFICULT TO FINANCE A WAR.

6. POVEDA REPLIED THAT PEACE IN THE HEMISPHERE HAD BEEN MAINTAINED IN THE PAST BECAUSE POTENTIAL AGGRESSORS HAD TO THINK TWICE ABOUT THE RESPONSE OF THE US. BUT POVEDA SUGGESTED THAT, FOR WHATEVER THE REASON, THE BORDER PROBLEM WAS BECOMING MORE VOLATILE. HE CITED THE EXAMPLE OF THE JANUARY BORDER FLARE-UP, WHERE AFTER A SERIES OF FOOLISH INCIDENTS, HE CLAIMED, PERU HAD ORDERED A BOMBING RAID ON THE ECUADOREAN FRONTIER HAMLET OF MIRADOR. BAD WEATHER PREVENTED THE RAID FROM BEING CARRIED OUT, SAID POVEDA, BUT IF IT HAD, ECUADOR WOULD HAVE HAD TO RETALIATE. IT WAS ONLY BECAUSE HE (POVEDA) WAS ABLE TO CONTACT PRESIDENT MORALES-BERMUDEZ PERSONALLY THAT A POSSIBLE CONFLAGRATION WAS PREVENTED. HE POINTED TO THIS AS AN EXAMPLE THAT THERE ARE NEW MODALITIES WHICH CAN VERY QUICKLY FALL APART. (IN A SEPARATE CONVERSATION LATER IN THE DAY, FOREIGN MINISTER AYALA MENTIONED THE SAME INTELLIGENCE ABOUT THE BOMBING ORDER. HE INDICATED ALSO THAT PERU HAD ORDERED A MOBILIZATION IN THE AREA AND THAT DURING THE

BAD WEATHER, ECUADOR AND PERUVIAN TROOPS WERE SHOOTING AT EACH OTHER FOR 57 HOURS UNTIL COMMUNICATIONS WITH THE REGION WERE REESTABLISHED. AYALA SAID THAT GOE HAD DECIDED NOT TO MOBILIZE, SIT, PRAY, AND HOPE FOR INTERNATIONAL PRESSURE TO EVENTUALLY BAIL ECUADOR OUT.)

7. POVEDA WAS ASKED WHETHER A RETURN TO CIVILIAN GOVERNMENT IN THE TWO COUNTRIES WOULD HAVE ANY EFFECT ON BILATERAL TENSIONS. HE THOUGHT THAT IT WOULD PROBABLY HAVE THE EFFECT OF RENDERING PERU LESS AGGRESSIVE. HE BELIEVED THAT THE NEW PERUVIAN CIVILIAN GOVERNMENT WILL BE AMAZED AND APPALLED AT THE MAGNITUDE OF DEFENSE SPENDING AND WOULD THEREFORE BE MORE INCLINED TO TALK ABOUT PACIFIC SOLUTIONS TO OUTSTANDING PROBLEMS. POVEDA DID NOT THINK
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IT WOULD MAKE MUCH DIFFERENCE IN ECUADOR, HOWEVER. THE MILITARY BUDGET IS NOT THE SAME PROBLEM AS IT IS IN PERU, AND ALL MAJOR MILITARY HARDWARE WOULD HAVE BEEN CONTRACTED BEFORE THE ADVENT OF THE CIVILIANS. HE THOUGHT THAT ECUADOREAN CIVILIANS AND MILITARY WERE CLOSER TOGETHER ON THE PERU PROBLEM THAN WERE THE TWO GROUPS IN PERU. NEVERTHELESS, HE MENTIONED THAT THE MILITARY WAS SOMEWHAT CONCERNED ABOUT THE POSSIBILITY OF CIVILIAN POLITICAL POSTURING AND DEMAGOGUERY SHOULD AN INCIDENT OCCUR. NOTING THAT IT WAS MORE DIFFICULT FOR A DE FACTO GOVERNMENT TO MAKE CONCESSIONS, HE THOUGHT THAT A NATIONAL DEBATE IN A CIVILIAN CONGRESS WAS ABSOLUTELY NECESSARY TO ENSURE A FINAL RESOLUTION.

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NSCE-00 EB-08 OMB-01 TRSE-00 DOE-15 SOE-02 AID-05
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TO SECSTATE WASHDC IMMEDIATE 8174
AMEMBASSY LIMA IMMEDIATE
INFO AMEMBASSY LA PAZ
AMEMBASSY SANTIAGO
AMCONSUL GUAYAQUIL
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C O N F I D E N T I A L SECTION 2 OF 2 QUITO 3086

LIMA FOR DEPUTY ASSISTANT SECRETARY MCNCIL

8. POVEDA SAW THE PERUVIAN ECONOMIC SITUATION AS A THREAT TO REGIONAL STABILITY RATHER THAN A RESTRAINT. HE THOUGHT THAT THERE WAS TOO MUCH TEMPTATION TO EXPLOIT INTERNATIONAL QUESTIONS TO TAKE THE NATION'S MIND OFF INTERNAL PROBLEMS, AS SEEMED TO ACTUALLY OCCUR IN JANUARY AND FEBRUARY. HE WAS PLEASED THAT THE US WAS COOPERATING WITH PERU TO SOLVE ITS FINANCIAL PROBLEMS, AND NOTED THAT ECUADOR HAD DONE LIKEWISE BY DEFERRING PAYMENT OF THE \$80 MILLION PETROLEUM DEBT. HE REMARKED THAT IT HAD BEEN SAID IRONICALLY IN ECUADOR THAT ECUADOR'S PETROLEUM IS PERU'S FUTURE, AND ONLY AN ECONOMICALLY HEALTHY PERU COULD PERSUADE THE CYNICS THAT PERU DOES NOT NEED ECUADOREAN OIL TO PROSPER. ON THE OTHER HAND, POVEDA WAS QUICK TO POINT OUT THAT WHILE AN ECONOMICALLY HEALTHY PERU WAS LESS DANGEROUS, THE THREAT TO PEACE WOULD REMAIN UNTIL THE BORDER PROBLEM WAS RESOLVED.

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9. FONMIN AYALA TOLD MR MCNEIL THAT FONMIN DE LA PUENTE HAD PASSED THROUGH QUITO MAY 4 ON HIS WAY TO WASHINGTON AND THE TWO HAD A 40-MINUTE MEETING. THE INTERVIEW, ACCORDING TO AYALA, DID NOT TOUCH ON THE FUNDAMENTAL PROBLEM. DE LA PUENTE ASKED AYALA WHETHER HE COULD TELL HIS WASHINGTON HOSTS THAT THE TWO HAD HAD A PLEASANT AND FRUITFUL MEETING AND THAT RELATIONS WERE CORDIAL. AYALA GAVE HIS PERMISSION, EVEN WHILE NOTING THAT RELATIONS WERE NOT VERY GOOD. THE REASON FOR THIS, HE EXPLAINED, WAS TO STRENGTHEN PERU BEFORE THE INTERNATIONAL BANKING COMMUNITY AND ALSO IN ORDER NOT TO EXACERBATE RELATIONS. AYALA SAID THAT HE STRONGLY FELT THAT AN IMPROVED PERUVIAN ECONOMIC SITUATION WOULD BE BENEFICIAL TO ECUADOR. ON THE OTHER HAND, HE WAS PESSIMISTIC ABOUT THE PERUVIAN MISSION'S ABILITY TO OBTAIN AN IMF STAND-BY. HOWEVER, WHETHER THE MISSION ACHIEVED IMMEDIATE RESULTS OR NOT, HE THOUGHT THAT THE MISSION WOULD BE SUCCESSFUL IN SETTING THE PSYCHOLOGICAL STAGE FOR LOAN ROLLOVERS AT SOME FUTURE DATE.

10. AYALA WAS MUCH MORE DEFINITE THAN POVEDA IN STATING HIS

BELIEF THAT TENSIONS WOULD BE REDUCED WITH THE ADVENT OF CIVILIAN GOVERNMENT IN BOTH COUNTRIES. WITH APOLOGIES TO THE MINISTER OF DEFENSE, WHO WAS SITTING BY HIS SIDE AT THE TIME, AYALA SAID THAT PROFESSIONAL SOLDIERS TENDED TO REACT AUTOMATICALLY TO INTERNATIONAL PROBLEMS IN A MILITARY WAY. CIVILIAN GOVERNMENTS WOULD BUFFER THIS TENDENCY, HE CONCLUDED.

11. AYALA DESCRIBED THE PUYANGO IRRIGATION PROJECT ON THE PERU-ECUADOR BORDER WHICH HAD BEEN BROUGHT UP AS A POSSIBLE PROJECT FOR US-BACKED FINANCING BY CHIEF OF JOINT COMMAND ADMIRAL RENAN OLMEDO IN HIS VISIT WITH MR MCNEIL IN WASHINGTON TWO WEEKS AGO. THE PROJECT CONSISTED OF BUILDING
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TWO DAMS, THE FIRST IN ECUADOREAN TERRITORY WHICH WOULD BENEFIT ECUADOR SOLELY. HOWEVER, IN ORDER TO RECOMPENSATE PERU FOR THE DIMINISHED WATER SUPPLY, A SECOND DAM WOULD HAVE TO BE BUILT ON THE PERUVIAN SIDE OF THE BORDER WHICH WOULD CREATE AN ARTIFICIAL LAKE INUNDATING 7000 SQ HECTARES OF ECUADOREAN TERRITORY. ALTHOUGH THE PROJECT STOOD ON ITS MERITS, AYALA WAS FRANK TO ACKNOWLEDGE THAT FOR ECUADOREAN INTERNAL POLITICAL REASONS, PERU WOULD HAVE TO COMPENSATE ECUADOR. THUS FAR A MUTUALLY SATISFACTORY METHOD OF COMPENSATION HAD NOT BEEN FOUND AND THE PROJECT WAS STALLED.

12. COMMENT: ALTHOUGH WE HAD HEARD SOME GUARDED ALLUSIONS TO A PERUVIAN MOBILIZATION DURING THAT PERIOD, THE INFORMATION ABOUT THE BOMBING ORDER IS NEWS. IF TRUE, IT WOULD UNDERLINE THE DANGERS OF THE BORDER PROBLEM AND EVEN IF NOT TRUE BUT BELIEVED BY THE GOE, IT WOULD EXPLAIN THE HEIGHTENED ECUADOREAN CONCERN ABOUT THE SITUATION. WHILE THE TWO COUNTRIES HAVE SERIOUSLY GONE ABOUT ESTABLISHING BETTER COMMUNICATIONS AND OTHER MODALITIES TO PREVENT AND EXTINGUISH BRUSHFIRES SINCE THE INCIDENT, AS POVEDA REMARKED, SUCH MODALITIES CAN FALL APART VERY QUICKLY.

13. THE VIEW THAT PERU SHOULD BE BAILED OUT OF ITS PRESENT ECONOMIC PLIGHT IS A CONSOLIDATED GOE POSITION WHICH SEEMS TO HAVE CRYSTALLIZED SINCE THE BEGINNING OF THE YEAR. PRIOR TO THAT, FONOFF AND MILITARY OFFICIALS HAD SPECULATED THAT PERU'S ECONOMIC SITUATION WOULD ACT AS A RESTRAINT. NEVERTHELESS, ECUADOR IS STILL SENSITIVE TO ANY HINT THAT PERU'S ARMS ACQUISITION DEBTS MAY ALSO BE INCLUDED IN A PACKAGE SETTLEMENT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DIPLOMATIC DISCUSSIONS, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Draft Date: 08 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
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From: QUITO
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1978/newtext/t19780582/aaaacskr.tel
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Litigation History:
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Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
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Review Event:
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Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2761695
Secure: OPEN
Status: NATIVE
Subject: PRESIDENT POVEDA, FONMIN AYALA DISCUSS PERU WITH DEPUTY ASSISTANT SECRETARY MCNEIL
TAGS: PBOR, EC, PE, (AYALA LASSO, JOSE), (POVEDA BURBANO, ALFREDO), (MCNEIL, FRANCIS)
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Type: TE
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Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014